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UNCLAS SECTION 01 OF 02 HARARE 000456

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX  
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER  
USDOC FOR AMANDA HILLIGAS  
TREASURY FOR OREN WYCHE-SHAW  
PASS USTR FLORIZELLE LISER  
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [PGOV](#) [ZI](#)

SUBJECT: Export Slump Reaches Crisis Proportions

Ref: Harare 361

1.(SBU) Summary: After surviving multiple economic red-alerts, Zimbabwe is again up to its jowls in a self-imposed imbroglio. Exporters have slowed operations to a near-standstill, depriving importers of their main forex source. We see no relief until the Reserve Bank (RBZ) Governor Gono allows the zimdollar to devalue significantly or eliminates the GOZ's quasi-tax on one-quarter of export proceeds. Gono's challenge is winning President Mugabe's approval, perhaps - as in the recent past - by couching changes for the stubborn octogenarian in face-saving, distortive phraseology. End summary.

String of Set-Backs

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12. (SBU) Zimbabwe has passed through recurring economic crises in recent years, each exacting its toll on gross domestic product. We have seen corporate invasions (2001), commercial farm seizures (2002), fuel shortages (2002-03), sub-market price controls (2003), cash shortages (2003) and national strikes (2003). Concurrently, we have endured hyperinflation, drought, brain drain, political stalemate, dilapidating railway and repeated electricity outages. At one point in late-2002/early-2003, many businessmen feared - mistakenly, as it turned out - Zimbabwe was heading for economic meltdown. Even so, the economy contracted between 13-14 percent last year and has shed about 40 percent since 1997, making it one of the world's worst performing.

13. (SBU) On some fronts, the Government has made progress. It halted corporate intrusions, deregulated the fuel price, scrapped price controls and printed larger banknote denominations. Accommodatingly, nature has brought back the rains. In other respects, however - farm expropriations, inflation and poor railway/electricity services - there is no advance. On balance, local UN, World Bank and IMF economists feel negative growth will slow modestly in 2004, but still come in at 5-10 percent.

End of Exports?

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14. (SBU) The auction crisis is at least as serious as its precursors. The GOZ's narrow and selective crackdown on corporate corruption has scared most firms away from parallel currency trading. At the same time, few can access forex through the auction's limited supply. The only lasting solution: more exports. Yet exporters cannot boost or even maintain output so long as they must sell 25 percent of revenue to the GOZ at a fractional one-sixth of the market exchange rate - and 50 percent at the sub-market auction rate. Many have frozen operations.

15. (SBU) Indeed, this year's export outlook for Zimbabwe's "big four" - agriculture, mining, manufacturing and tourism - is bleak. The quasi-governmental Tobacco Industry Marketing Board (TIMB) forecasts a tobacco harvest of just 45 million kgs this year, down from 83 million in 2003 and a record 237 million in 2000. For a crop that traditionally accounts for one-third of export revenue, this is a devastating drop. Meanwhile, miners and manufacturers tell us they are scaling back operations until conditions improve and the GOZ reaffirms export processing zone privileges (ref). Tourism Board President Shingi Munyeza confirmed for us last week that international arrivals are down seventy percent from 2000 with no sign of recovery. (His firm, ZimSun, is investing aggressively in other African countries.)

Comment

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16. (SBU) Several RBZ oversight board members tell us Governor Gideon Gono recognizes the problem and hopes to resolve it in a late-March/early-April address. He may

elevate the GOZ-rigged auction rate, offer exporters right of refusal or abolish the mandatory 25 percent exchange requirement. Still, Gono has to convince Mugabe, perhaps by characterizing the changes in misleading, Orwellian terminology. This was the means, in 2003, for devaluing the zimdollar in January, eliminating price controls in May, creating larger banknotes in October and deregulating fuel tariffs in November. (At one point, we are told, Mugabe's handlers only had him driven on certain routes in Harare, lest he witness increased market-driven fuel prices.) In this sense, RBZ Governor Gono's next policy statement may be more important and far-reaching than his first on Dec 18.

Sullivan